



**UMVOTI LOCAL MUNICIPALITY**  
**Annual Financial Statements**  
**for the year ended 30 June 2017**

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## GENERAL INFORMATION

---

### EXECUTIVE COMMITTEE

Mayor	T.C Ngubane (Mayor) N.G MAsikane (Deputy Mayor) W. Khoza (Speaker) L.T Gwala (Exco member) S.V Zondi (Exco Member) R Maharaj (Exco Member)
-------	---

### Councillors

BD Madonsela  
KL Chonco  
NSV Machaba  
MD Khanyile  
PR Buss  
MR Dlamini  
MS Zondi  
MS Yengwa  
NJ Nzame  
PS Hlophe  
SS Xulu  
VB Njoko  
Z Zakwe  
ZC Ngema  
ZN Ndlovu  
CN Mkhize  
F Mayat  
GZ Malembe  
PMS Ngubane  
PT Zuma  
RS Maharaj  
SE Lembethe  
ES Shange  
MS Yengwa  
BE Mlondo  
LO Mdlalose  
BG Dladla  
ML Shezi  
SA Nzama  
EN Mncube  
IS Nyoka  
M Pillay  
NK Ngubane

### GRADING OF LOCAL AUTHORITY

Grade 3

### ACTING CHIEF FINANCE OFFICER (CFO)

N Mzimela

### ACCOUNTING OFFICER

T.N Ngiba (Acting)

### REGISTERED OFFICE

41 Bell street  
Greytown  
3250

### BANKERS

ABSA Bank

---

# **UMVOTI LOCAL MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2017

## **GENERAL INFORMATION**

---

**AUDITORS**

The Auditor General South Africa

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## INDEX

---

The reports and statements set out below comprise the annual financial statements presented to the council:

<b>INDEX</b>	<b>PAGE</b>
Accounting Officer's Responsibilities and Approval	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Statement Of Cash Flows	8
Statement of Comparison of Budget and Actual Amounts	9 - 10
Accounting Policies	13 - 26
Notes to the Annual Financial Statements	27 - 51

## ABBREVIATIONS

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## ACCOUNTING OFFICER'S RESPONSIBILITIES AND APPROVAL

---

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and are given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, she sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2018 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The accounting officer certifies that the salaries, allowances and benefits of councillors as disclosed in note 27 of these annual financial statements are within the upper limits of the framework envisaged in section 219 of the constitution, read with the Remuneration of Public Office Bearers Act (Act no.20 of 1998).

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements are examined by the municipality's external auditors and their report is presented to the council upon completion.

The annual financial statements set out on pages 5 to 51, which have been prepared on the going concern basis, were approved on 31 August 2017 and are signed by:



---

**T.N Ngiba (Acting)**  
**Acting Municipal Manager**

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

Figures in Rand	Note(s)	2017	2016 Restated*
<b>ASSETS</b>			
<b>Current Assets</b>			
Inventories	3	1 926 632	2 254 428
Other receivables from exchange transactions	4	2 567 881	772 867
Receivables from exchange transactions	5	22 142 038	16 140 352
Receivables from non-exchange transactions	6	17 804 097	20 779 086
Cash and cash equivalents	8	11 975 583	42 672 393
		<b>56 416 231</b>	<b>82 619 126</b>
<b>Non-Current Assets</b>			
Investment property	9	49 809 000	42 605 000
Property, plant and equipment	10	456 815 529	436 724 231
Intangible assets	11	1 303 559	867 800
Heritage assets	12	355 590	355 590
		<b>508 283 678</b>	<b>480 552 621</b>
<b>Total Assets</b>		<b>564 699 909</b>	<b>563 171 747</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Loan payable	13	7 633 253	19 346 392
Payables from exchange transactions	14	35 903 403	48 147 730
VAT payable		9 229 257	7 803 243
Consumer deposits	15	2 415 337	2 377 132
Employee benefit obligation	18	728 499	603 840
Unspent conditional grants and receipts	16	3 936 847	6 083 928
Provisions	17	191 579	251 533
		<b>60 038 175</b>	<b>84 613 798</b>
<b>Non-Current Liabilities</b>			
Loan payable	13	-	6 319 974
Employee benefit obligation	18	16 939 434	16 594 544
Provisions	17	2 681 840	2 629 044
		<b>19 621 274</b>	<b>25 543 562</b>
<b>Total Liabilities</b>		<b>79 659 449</b>	<b>110 157 360</b>
<b>Net Assets</b>		<b>485 040 460</b>	<b>453 014 387</b>
<b>Reserves</b>			
Housing Development Fund	19	3 353 876	9 698 765
Accumulated surplus		481 686 584	443 315 622
<b>Total Net Assets</b>		<b>485 040 460</b>	<b>453 014 387</b>

\* See Note 42

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand	Note(s)	2017	2016 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	20	73 554 604	66 305 649
Rental of facilities and equipment	21	3 716 078	3 300 893
Interest on current account and sundry		634 663	896 710
Agency services		1 376 466	1 268 754
Licences and permits		1 736 693	1 690 008
Other income	22	499 662	347 651
Interest received - investment	23	3 346 566	2 121 815
		<b>84 864 732</b>	<b>75 931 480</b>
<b>Revenue from non-exchange transactions</b>			
Property rates	24	35 709 330	31 431 427
Property rates - penalties imposed	24	3 553 854	1 721 240
Government grants and subsidies	25	127 685 747	176 184 247
Public contributions and donations		2 807 210	-
Fines, Penalties and Forfeits		921 806	2 342 469
		<b>170 677 947</b>	<b>211 679 383</b>
<b>Total revenue</b>		<b>255 542 679</b>	<b>287 610 863</b>
<b>Expenditure</b>			
Employee related costs	26	(89 005 499)	(78 459 121)
Remuneration of councillors	27	(8 473 641)	(7 443 354)
Transfer payments - Other		(380 244)	(205 927)
Depreciation and amortisation	28	(26 154 496)	(24 325 212)
Impairment of receivables		(11 896 069)	(4 836 632)
Finance costs		(2 491 841)	(1 166 366)
Lease rentals on operating lease		(175 798)	(200 165)
Repairs and maintenance		(8 701 847)	(5 361 353)
Bulk purchases	29	(44 550 570)	(41 249 614)
Contracted services	30	(15 150 661)	(15 508 965)
Indigent support	31	(1 642 920)	(1 786 438)
Assets written down		(450 765)	-
General expenses	32	(54 027 816)	(95 659 191)
<b>Total expenditure</b>		<b>(263 102 167)</b>	<b>(276 202 338)</b>
<b>Operating (deficit) surplus</b>		<b>(7 559 488)</b>	<b>11 408 525</b>
Gain on disposal of assets and liabilities		55 162	-
Fair value adjustments		7 204 000	3 788 000
Actuarial gains/losses	18	1 602 502	(674 719)
		<b>8 861 664</b>	<b>3 113 281</b>
<b>Surplus for the year</b>		<b>1 302 176</b>	<b>14 521 806</b>

\* See Note 42

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## STATEMENT OF CHANGES IN NET ASSETS

Figures In Rand	Housing Development Fund	Accumulated surplus	Total net assets
<b>Balance at 01 July 2015</b>	<b>11 541 387</b>	<b>425 884 594</b>	<b>437 425 981</b>
Changes in net assets			
Prior year Adjustments	-	1 066 600	1 066 600
Net income (losses) recognised directly in net assets	-	1 066 600	1 066 600
Surplus for the year	-	14 521 806	14 521 806
Total recognised income and expenses for the year	-	15 588 406	15 588 406
Interest transfer	783 878	(783 878)	-
Feasibility Studies	(2 626 500)	2 626 500	-
Total changes	(1 842 622)	17 431 028	15 588 406
<b>Restated* Balance at 01 July 2016</b>	<b>9 698 765</b>	<b>443 315 621</b>	<b>453 014 386</b>
Changes in net assets			
Deficit for the year	-	1 302 176	1 302 176
Other direct changes to Net Assets	-	30 723 898	30 723 898
Interest transfer	476 586	(476 586)	-
Transfer from the Housing Development Fund to accumulated surplus	(6 821 475)	6 821 475	-
Total changes	(6 344 889)	38 370 963	32 026 074
<b>Balance at 30 June 2017</b>	<b>3 353 876</b>	<b>481 686 584</b>	<b>485 040 460</b>
Note(s)	19		

\* See Note 42



# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## STATEMENT OF CASH FLOWS

Figures in Rand	Note(s)	2017	2016 Restated*
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Receipts</b>			
Receipts from ratepayers, consumer debtors and other		122 302 057	100 858 500
Government grants		128 947 244	168 148 849
Interest income		3 346 566	2 121 815
		<u>254 595 867</u>	<u>271 129 164</u>
<b>Payments</b>			
Cash paid to employees and Councillors		(97 016 749)	(82 096 252)
Cash paid to suppliers		(132 343 127)	(161 877 667)
Finance costs		(2 491 841)	(1 166 366)
		<u>(231 851 717)</u>	<u>(245 140 285)</u>
<b>Net cash flows from operating activities</b>	33	<u>22 744 150</u>	<u>25 988 879</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	10	(34 619 316)	(47 250 664)
Proceeds from sale of property, plant and equipment	10	55 162	-
Purchase of other intangible assets	11	(843 692)	-
Purchases of heritage assets	12	-	(41 634)
		<u>(35 407 846)</u>	<u>(47 292 298)</u>
<b>Net cash flows from investing activities</b>		<u>(35 407 846)</u>	<u>(47 292 298)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Loan received		-	24 500 000
Loan repayments		(18 033 114)	-
		<u>(18 033 114)</u>	<u>24 500 000</u>
<b>Net cash flows from financing activities</b>		<u>(18 033 114)</u>	<u>24 500 000</u>
<b>Net decrease in cash and cash equivalents</b>		<u>(30 696 810)</u>	<u>3 196 581</u>
Cash and cash equivalents at the beginning of the year		42 672 393	39 475 812
<b>Cash and cash equivalents at the end of the year</b>	8	<u>11 975 583</u>	<u>42 672 393</u>

\* See Note 42

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

### Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>REVENUE</b>						
<b>REVENUE FROM EXCHANGE TRANSACTIONS</b>						
Service charges	80 122 000	-	<b>80 122 000</b>	73 554 604	<b>(6 567 396)</b>	refer note 46
Rental of facilities and equipment	4 458 000	(50 000)	<b>4 408 000</b>	3 716 078	<b>(691 922)</b>	
Interest received (trading)	-	-	-	634 663	<b>634 663</b>	
Agency services	1 219 000	-	<b>1 219 000</b>	1 376 466	<b>157 466</b>	
Licences and permits	2 281 000	(639 000)	<b>1 642 000</b>	1 736 693	<b>94 693</b>	
Other income - (rollup)	1 639 000	-	<b>1 639 000</b>	499 662	<b>(1 139 338)</b>	refer note 46
Interest received - investment	1 590 000	-	<b>1 590 000</b>	3 346 566	<b>1 756 566</b>	
<b>Total revenue from exchange transactions</b>	<b>91 309 000</b>	<b>(689 000)</b>	<b>90 620 000</b>	<b>84 864 732</b>	<b>(5 755 268)</b>	
<b>REVENUE FROM NON-EXCHANGE TRANSACTIONS</b>						
<b>TAXATION REVENUE</b>						
Property rates	34 046 000	-	<b>34 046 000</b>	35 709 330	<b>1 663 330</b>	refer note 46
Property rates - penalties imposed	1 461 000	-	<b>1 461 000</b>	3 553 854	<b>2 092 854</b>	
<b>TRANSFER REVENUE</b>						
Government grants & subsidies	39 465 000	-	<b>39 465 000</b>	127 685 747	<b>88 220 747</b>	refer note 46
Public contributions and donations	-	-	-	2 807 210	<b>2 807 210</b>	
Fines, Penalties and Forfeits	244 000	(50 000)	<b>194 000</b>	921 806	<b>727 806</b>	refer note 46
<b>Total revenue from non-exchange transactions</b>	<b>75 216 000</b>	<b>(50 000)</b>	<b>75 166 000</b>	<b>170 677 947</b>	<b>95 511 947</b>	
<b>Total revenue</b>	<b>166 525 000</b>	<b>(739 000)</b>	<b>165 786 000</b>	<b>255 542 679</b>	<b>89 756 679</b>	
<b>EXPENDITURE</b>						
Personnel	(99 299 000)	10 047 000	<b>(89 252 000)</b>	(89 005 499)	<b>246 501</b>	refer note 46
Remuneration of councillors	(9 031 000)	-	<b>(9 031 000)</b>	(8 473 641)	<b>557 359</b>	refer note 46
Transfer payments - Other	-	-	-	(380 244)	<b>(380 244)</b>	
Depreciation and amortisation	(24 375 000)	(1 284 000)	<b>(25 659 000)</b>	(26 154 496)	<b>(495 496)</b>	refer note 46
Debt impairment	(2 100 000)	-	<b>(2 100 000)</b>	(11 896 069)	<b>(9 796 069)</b>	
Finance costs	(1 009 000)	-	<b>(1 009 000)</b>	(2 491 841)	<b>(1 482 841)</b>	
Lease rentals on operating lease	-	-	-	(175 798)	<b>(175 798)</b>	
Repairs and maintenance	(9 302 000)	-	<b>(9 302 000)</b>	(8 701 847)	<b>600 153</b>	refer note 46
Materials and bulk purchases	(50 585 000)	-	<b>(50 585 000)</b>	(44 550 570)	<b>6 034 430</b>	refer note 46
Contracted Services	(7 922 000)	(7 475 000)	<b>(15 397 000)</b>	(15 150 661)	<b>246 339</b>	refer note 46
Indigent Support	(700 000)	-	<b>(700 000)</b>	(1 642 920)	<b>(942 920)</b>	
Assets written down	-	-	-	(450 765)	<b>(450 765)</b>	
General expenses	(25 319 000)	(11 291 000)	<b>(36 610 000)</b>	(54 027 816)	<b>(17 417 816)</b>	refer note 46
<b>Total expenditure</b>	<b>(229 642 000)</b>	<b>(10 003 000)</b>	<b>(239 645 000)</b>	<b>(263 102 167)</b>	<b>(23 457 167)</b>	
<b>Operating deficit</b>	<b>(63 117 000)</b>	<b>(10 742 000)</b>	<b>(73 859 000)</b>	<b>(7 559 488)</b>	<b>66 299 512</b>	
Gain on disposal of assets and liabilities	-	-	-	55 162	<b>55 162</b>	
Fair value adjustments	-	-	-	7 204 000	<b>7 204 000</b>	
Actuarial gains/losses	-	-	-	1 602 502	<b>1 602 502</b>	
	-	-	-	<b>8 861 664</b>	<b>8 861 664</b>	

## UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

### STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

#### Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
Surplus before taxation	(63 117 000)	(10 742 000)	(73 859 000)	1 302 176	75 161 176	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(63 117 000)	(10 742 000)	(73 859 000)	1 302 176	75 161 176	
RECONCILIATION						

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## APPROPRIATION STATEMENT

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2017</b>											
<b>Financial Performance</b>											
Property rates	34 046 000	-	34 046 000	-	-	34 046 000	39 263 184		5 217 184	115 %	115 %
Service charges	80 122 000	-	80 122 000	-	-	80 122 000	73 554 604		(6 567 396)	92 %	92 %
Investment revenue	1 590 000	-	1 590 000	-	-	1 590 000	3 346 566		1 756 566	210 %	210 %
Transfers recognised - operational	13 154 000	-	13 154 000	-	-	13 154 000	100 263 750		87 109 750	762 %	762 %
Other own revenue	11 302 000	(739 000)	10 563 000	-	-	10 563 000	16 144 530		5 581 530	153 %	143 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>140 214 000</b>	<b>(739 000)</b>	<b>139 475 000</b>	<b>-</b>	<b>-</b>	<b>139 475 000</b>	<b>232 572 634</b>		<b>93 097 634</b>	<b>167 %</b>	<b>166 %</b>
Employee costs	(99 298 000)	10 047 000	(89 252 000)	-	-	(89 252 000)	(89 005 499)		246 501	100 %	90 %
Remuneration of councillors	(9 031 000)	-	(9 031 000)	-	-	(9 031 000)	(8 473 641)		557 359	94 %	94 %
Debt impairment	(2 100 000)	-	(2 100 000)	-	-	(2 100 000)	-		2 100 000	- %	- %
Depreciation and asset impairment	(24 375 000)	(1 284 000)	(25 659 000)	-	-	(25 659 000)	(38 050 565)		(12 391 565)	148 %	156 %
Finance charges	(1 009 000)	-	(1 009 000)	-	-	(1 009 000)	(2 491 841)		(1 482 841)	247 %	247 %
Materials and bulk purchases	(50 585 000)	-	(50 585 000)	-	-	(50 585 000)	(44 550 570)		6 034 430	88 %	88 %
Transfers and grants	(700 000)	-	(700 000)	-	-	(700 000)	(1 642 920)		(942 920)	235 %	235 %
Other expenditure	(42 543 000)	(18 766 000)	(61 309 000)	-	-	(61 309 000)	(78 887 131)		(17 578 131)	129 %	185 %
<b>Total expenditure</b>	<b>(229 642 000)</b>	<b>(10 003 000)</b>	<b>(239 645 000)</b>	<b>-</b>	<b>-</b>	<b>(239 645 000)</b>	<b>(263 102 167)</b>		<b>(23 457 167)</b>	<b>110 %</b>	<b>115 %</b>
<b>Surplus/(Deficit)</b>	<b>(89 428 000)</b>	<b>(10 742 000)</b>	<b>(100 170 000)</b>	<b>-</b>	<b>-</b>	<b>(100 170 000)</b>	<b>(30 529 533)</b>		<b>69 640 467</b>	<b>30 %</b>	<b>34 %</b>

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## Appropriation Statement

Figures In Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	26 311 000	-	-	26 311 000	-	26 311 000	27 421 997		1 110 997	104 %	104 %
Contributions recognised - capital and contributed assets	-	-	-	-	-	-	2 807 210		2 807 210	DIV/0 %	DIV/0 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>(63 117 000)</b>	<b>(10 742 000)</b>	<b>(73 859 000)</b>			<b>(73 859 000)</b>	<b>(300 326)</b>		<b>73 558 674</b>	<b>- %</b>	<b>- %</b>
Actuarial gains	-	-	-	-	-	-	1 602 502		1 602 502	DIV/0 %	DIV/0 %
<b>Surplus/(Deficit) for the year</b>	<b>(63 117 000)</b>	<b>(10 742 000)</b>	<b>(73 859 000)</b>			<b>(73 859 000)</b>	<b>(1 902 828)</b>		<b>71 956 172</b>	<b>3 %</b>	<b>3 %</b>

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## ACCOUNTING POLICIES

---

### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Changes in accounting policies and comparability

Changes in accounting policies due to adoption of newly effective Standards of GRAP are applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of a change in policy or where allowed transitional provisions are adopted. In such cases the municipality would restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Errors are corrected retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality would restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

The municipality changes an accounting policy only if the change:

- a) is required by a Standard of GRAP; or
- b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the performance or cash flow.

#### 1.4 Comparative Information

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

#### 1.5 Significant judgments and sources of estimation uncertainty

The following are the critical judgments, apart from those involving estimations, that management has made in the process of applying the municipality's accounting policies and that have the most significant effect on the amounts recognised in the annual financial statements:

##### Financial assets and liabilities

The classification of financial assets and liabilities into categories is based on relevant accounting standards as assessed by management.

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## ACCOUNTING POLICIES

---

### 1.5 Significant judgments and sources of estimation uncertainty (continued)

#### **Impairment: Write down of Property, Plant and Equipment (PPE) and inventories**

An allowance for writing inventory down to the lower of cost or net realisable value where required, management determine estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the surplus or deficit for the period in which it arises.

Significant estimates and judgments are made relating to PPE impairment tests and impairment of inventories.

#### **Impairment of financial assets**

In making the estimation of impairment, management of the municipality considers the detailed criteria of impairment of financial assets as set out in GRAP 104: Financial Instruments. Management of the municipality is satisfied that the impairment of financial assets recorded during the year, is appropriate.

#### **Useful lives of Property, Plant and Equipment**

The municipality depreciates/amortises its property, plant and equipment, and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge. The depreciable amount of an asset shall be allocated on a systematic basis over its useful life. The municipality shall assess at each reporting date whether there is any indication that the entity's expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the entity shall revise the expected useful life and/or residual value accordingly. The change(s) shall be accounted for as a change in an accounting estimate in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors( GRAP 3)

#### **Defined benefit plan liabilities**

The municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are post-retirement health benefit obligations and long-service awards. Details of the liabilities are provided in the notes to the annual financial statements. Assumptions of the actuaries are contained in the actuary reports.

Multi-employer defined benefit funds are accounted for as defined contribution plans.

#### **Revenue recognition**

In making their judgement, management considers the detailed criteria for the recognition of revenue in particular when services are rendered, whether the service has been rendered. Management of the municipality is satisfied that recognition of revenue in the current year is appropriate.

### 1.6 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the provision of services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## ACCOUNTING POLICIES

---

### 1.6 Investment property (continued)

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

### 1.7 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one reporting period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or assets, or a combination of assets and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value is not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Land is not depreciated as it is regarded as having an indefinite life. Depreciation of assets other than land is calculated, using the straight line method, to depreciate their cost to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciation rates are based on the following estimated useful lives.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	5 to 50 Years
Furniture and fixtures	7 to 10 Years
Motor vehicles	5 to 7 Years
Office equipment	3 to 5 Years



# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## ACCOUNTING POLICIES

---

### 1.7 Property, plant and equipment (continued)

#### Infrastructure

• Roads and Paving	10 to 20 Years
• Pedestrian Malls	30 Years
• Major Substation Buildings	10 to 50 Years
• Transformers and Related Equipment	20 to 50 Years
• Mains	20 Years
• Street Lights	20 Years

#### Community

• Buildings	5 to 50 Years
• Security	5 to 10 Years

#### Other property, plant and equipment

3 Years

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset.

### Subsequent measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment, are measured at cost (which includes deemed cost for previously unrecognised assets), less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

### 1.8 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## ACCOUNTING POLICIES

---

### 1.8 Intangible assets (continued)

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	5years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from their use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

### 1.9 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

#### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

#### Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

#### Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

### 1.10 Financial instruments

The municipality has various types of financial instruments and these can be broadly categorised as either financial assets or financial liabilities.

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## ACCOUNTING POLICIES

---

### 1.10 Financial instruments (continued)

#### Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from non-exchange transactions	Financial asset measured at amortised cost
VAT receivable	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
VAT payable	Financial liability measured at cost
Consumer deposits	Financial liability measured at cost
Unspent conditional grants	Financial liability measured at amortised cost
Provisions	Financial liability measured at amortised cost
Loan payable	Financial liability measured at amortised cost

#### Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

#### Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

#### Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition at amortised cost.

All financial assets measured at amortised cost, are subject to an impairment review.

#### Impairment of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## ACCOUNTING POLICIES

---

### 1.10 Financial instruments (continued)

#### Derecognition

##### Financial assets

The municipality derecognises financial assets when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

##### Financial liabilities

The municipality derecognises financial liabilities when the municipality's obligations are discharged, cancelled or they expire.

### 1.11 Leases

#### Operating leases - lessor

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

#### Operating leases - lessee

Operating lease rentals are recognised as an expense in surplus or deficit for the year on a straight-line basis over the term of the relevant lease.

### 1.12 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost determined on the weighted average basis and, net realisable value.

### 1.13 Impairment of cash-generating assets

#### Identification

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## ACCOUNTING POLICIES

---

### 1.13 Impairment of cash-generating assets (continued)

#### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### 1.14 Impairment of non-cash-generating assets

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## ACCOUNTING POLICIES

---

### 1.14 Impairment of non-cash-generating assets (continued)

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## ACCOUNTING POLICIES

---

### 1.15 Employee benefits

#### Short-term employee benefits

Remuneration to employees is recognised in surplus or deficit for the year as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is included as an accrual in financial liabilities. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

#### Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in surplus or deficit for the year in which the service is rendered by the relevant employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The municipality has no further payment obligations once the contributions have been paid.

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

#### Pension benefits

The municipality and its employees contribute to the Natal Joint Municipal Pension Fund (Superannuation, Retirement and Provident fund). The KZN Municipal Pension Fund is a defined contribution fund. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable. Natal Joint Superannuation & Retirement Funds and Government Employee Pension Fund are defined benefit funds. The Natal Joint Provident Fund and South African Local Authority Pension Fund are defined contribution funds.

The schemes are funded through payments to fund administered or trustee-administered funds, determined by periodic actuarial calculations.

Defined benefit plans have been accounted for as defined contribution plans in accordance with the requirements on multi-employer plans where sufficient information is not available to account for such plans as defined benefit plans. As the fund administrators do not have sufficient information available to allocate the shortfall on liabilities to individual employers, no liability is recognised for any shortfall of fund assets as compared to fund liabilities. Any surcharges that may be levied by the fund from time to time in order to compensate for shortfalls, are recognised as expenses in the period in which they become payable to the fund. As surcharges are advised long in advance, based on actuarial valuations of the fund as a whole, the necessary provision for the payment thereof is made in the course of the municipality's normal budgeting processes.

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## ACCOUNTING POLICIES

---

### 1.15 Employee benefits (continued)

#### Post-retirement health care benefits

The municipality has an obligation to provide post-retirement health care benefits to certain of its retirees. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service), on retirement, is entitled to remain a continued member of the medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and recognised actuarial gains and losses, adjusted by past service costs where applicable. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and an appropriate discount rate. Valuations of these obligations are carried out by independent qualified actuaries.

Actuarial gains or losses are accounted for in full and are recognised in the statement of financial performance.

#### Long service awards

The municipality has an obligation to provide benefits to its employees. The municipality's liability is based on actuarial valuation using actuary assumptions. Actuarial gains and losses on the long-term incentives are accounted for in surplus or deficit for the year.

### 1.16 Provisions and contingencies

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the statement of financial performance as a finance cost as it occurs.

Contingent assets and contingent liabilities are not recognised. Contingent liabilities are disclosed in the notes to the annual financial statements..

### 1.17 Commitments

Capital commitments inclusive of VAT are disclosed for all assets and intangible assets. The commitment is measured at the value of the contract less amounts incurred.

### 1.18 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue comprises the fair value of the consideration received or receivable for the sale or rendering of services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits or service potential will flow to the municipality and when specific criteria have been met for each of the municipality's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the transaction have been resolved. The municipality bases its estimates on historical results, taking into consideration the consumer, transaction and the specifics of each arrangement.



# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## ACCOUNTING POLICIES

---

### 1.18 Revenue from exchange transactions (continued)

#### Service charges

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made when meter readings cannot be performed

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff. Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale

#### Approved Tariff charges and Rentals

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

Revenue from the rental of facilities and equipment classified as operating leases is recognised on a straight-line basis over the term of the lease agreement where material, where such lease periods span over more than one financial year.

#### Finance Income

Interest earned on investments is recognised in surplus or deficit for the year on the time proportion basis that takes into account the effective yield on the investment.

### 1.19 Revenue from non-exchange transactions

Rates, including collection charges and penalties interest.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

#### Fines

Revenue from issuing of Traffic Fines is recognised when it is probable that economic benefits associated with a transaction will flow to the Municipality and can be measured reliably.

Revenue from traffic fines is initially fair value and subsequently tested for impairment.

The revenue from traffic fines is subject to judicial process which is outside the municipality's control.

#### Public contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Revenue is recognised at the fair value of the consideration received. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

#### Government grants and receipts

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised as accounts receivable in the period in which they become receivable.

Interest earned on investments arising from grant received, is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the liability and if it is not payable to the funder, it is recognised as interest earned in surplus or deficit for the year.

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## ACCOUNTING POLICIES

---

### 1.20 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds. These costs are recognised as expenses in surplus or deficit for the year.

### 1.21 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.23 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.24 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from National and Provincial Government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to the fund.

In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into fund. Where the municipality experiences a net loss on proceeds realised these are funded by the accumulated surplus. Monies standing to the credit of the fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

### 1.25 Value Added Tax (VAT)

The municipality accounts for VAT on the accruals basis.

Based on approval received from the Commissioner for South African Revenue Services, the municipality has been given permission to remit or claim for VAT on the payments basis for debtors and creditors.

### 1.26 Budget information

The municipality presents a comparison of the budget amounts for which it is held publicly accountable and actual amounts as a separate statement called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the financial statements. The budget and financial statements are comparable on an accruals basis.

# **UMVOTI LOCAL MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2017

## **ACCOUNTING POLICIES**

---

### **1.27 Related parties**

Individuals, including councillors, as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

### **1.28 Events after reporting date**

Events after the reporting date that have been classified as adjusting events are accounted for in the annual financial statements. Events after the reporting date that are classified as non-adjusting events after the reporting date are disclosed in the notes to the annual financial statements.

### **1.29 Offsetting**

Assets, liabilities, revenue and expenses have not been offset, except where offsetting is required or permitted by Standards of GRAP.

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2017	2016
-----------------	------	------

### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

**UMVOTI LOCAL MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2017

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

Figures in Rand	2017	2016
<b>3. INVENTORIES</b>		
Consumables	1 926 632	2 254 428
Inventories recognised as an expense during the year	8 214 847	6 502 077
<b>4. OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS</b>		
Impairment	(407 585)	(407 585)
Accrued interest	33 437	91 829
Other receivables	2 534 444	681 038
Uthukela Water	407 585	407 585
	<b>2 567 881</b>	<b>772 867</b>
<b>Reconciliation of provision for impairment of other receivables from exchange transactions</b>		
Balance	407 585	407 585
<b>5. RECEIVABLES FROM EXCHANGE TRANSACTIONS</b>		
<b>Gross balances</b>		
Electricity	14 080 006	13 102 692
Service debtors	7 282 150	5 355 490
Housing rental	189 293	439 008
Other	7 566 037	3 614 903
	<b>29 117 486</b>	<b>22 512 093</b>
<b>Less: Allowance for impairment</b>		
Electricity, housing and service debtors	(3 149 408)	(3 172 763)
Refuse	(2 118 141)	(1 462 665)
Housing rental	(46 664)	(4 306)
Other	(1 661 235)	(1 732 007)
	<b>(6 975 448)</b>	<b>(6 371 741)</b>
<b>Net balance</b>		
Electricity	10 930 598	9 929 929
Refuse	5 164 009	3 892 825
Housing rental	142 629	434 702
Other	5 904 802	1 882 896
	<b>22 142 038</b>	<b>16 140 352</b>
<b>Electricity and other</b>		
Current (0 -30 days)	10 180 155	8 091 662
31 - 60 days	2 130 982	1 551 791
61 - 90 days	2 482 236	1 064 726
91 - 120 days	1 210 616	1 057 272
> 120 days	13 113 531	10 746 642
	<b>29 117 520</b>	<b>22 512 093</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	6 371 741	4 645 306
Contributions to allowance	1 668 937	1 726 435
Debt impairment written off against allowance	(1 065 196)	-
	<b>6 975 482</b>	<b>6 371 741</b>

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2017	2016
-----------------	------	------

### 5. RECEIVABLES FROM EXCHANGE TRANSACTIONS (continued)

#### Consumer debtors past due but not impaired

Amounts owed by Government and Government departments are not considered to be impaired. At 30 June 2017, R (140 695) (2016: R -) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	96 543	(80 482)
2 months past due	76 152	(140 522)
3 months past due	(384 977)	(76 356)

### 6. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Property rates	30 588 796	24 673 243
Traffic fines	6 412 615	5 601 375
Impairment	(19 197 314)	(9 495 532)
	<b>17 804 097</b>	<b>20 779 086</b>

#### Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2017, R 3 118 764 (2016: R 2 324 848) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	122 196	136 641
2 months past due	108 671	139 224
3 months past due	2 887 897	2 048 982

#### Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	9 495 532	6 385 335
Provision for impairment	10 219 282	3 110 197
Amounts written off as uncollectible	(517 500)	-
	<b>19 197 314</b>	<b>9 495 532</b>

#### Rates

Current (0-30 days)	2 327 602	2 859 161
31-60 days	907 422	661 157
61-90 days	901 634	1 080 396
91-120 days	849 241	623 836
> 120 days	25 602 863	19 448 693
	<b>30 588 762</b>	<b>24 673 243</b>

### 7. VAT RECEIVABLE

Value Added Tax becomes due and payable/ receivable upon payment to suppliers or receipt of cash from customers.

### 8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

Cash on hand	50 134	62 162
Bank balances	1 609 355	1 540 930
Short-term deposits	10 316 094	41 069 301
	<b>11 975 583</b>	<b>42 672 393</b>

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

2017

2016

### 8. CASH AND CASH EQUIVALENTS (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
ABSA Main account - 4064988800	1 670 899	1 540 930	15 025 685	1 609 355	1 540 930	15 486 380
ABSA Call account - 9184583753	1 183 176	1 126 711	1 078 668	1 183 176	11 256 711	1 078 668
ABSA call account - 9167223251	4 608 333	397 317	829 281	4 608 333	397 317	829 281
Ndebank Investment - 03/7165015566/063	-	10 188 091	12 077 952	-	10 188 091	12 077 953
FNB Investment - 74407730700	-	-	10 000 000	-	-	10 000 000
Nedbank Investment- 03/7165015566/061	-	10 181 044	-	-	10 181 044	-
Standard Bank Investment- 268530947-027	-	15 000 000	-	-	15 000 000	-
Standard Bank Investment- 268530947-042	-	4 176 138	-	-	4 176 138	-
Nedbank Investment- 03/7165015566/0041	4 524 585	-	-	4 524 585	-	-
Cash on hand	-	-	-	50 134	62 162	3 530
<b>Total</b>	<b>11 986 993</b>	<b>42 610 231</b>	<b>39 011 586</b>	<b>11 975 583</b>	<b>52 802 393</b>	<b>39 475 812</b>

### 9. INVESTMENT PROPERTY

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	49 809 000	-	49 809 000	42 605 000	-	42 605 000

#### Reconciliation of investment property - 2017

	Opening balance	Fair value adjustments	Total
Investment property	42 605 000	7 204 000	49 809 000

#### Reconciliation of investment property - 2016

	Opening balance	Fair value adjustments	Total
Plantation land and other	38 817 000	3 788 000	42 605 000

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Mainly, plantation land relates to plantations being leased to Mondi. Rental income from this lease amounted to R2 736 910.35.64 ; 2017, (R 2 546 867.01 : 2016). No costs were incurred regarding the land leased to Mondi. No impairment or repairs and maintenance was recognized or reversed/ incurred in the period under review.

# **UMVOTI LOCAL MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2017

## **NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

### **10. PROPERTY, PLANT AND EQUIPMENT**

	2017		2016	
	Cost / Valuation	Accumulated Carrying value impairment	Cost / Valuation	Accumulated Carrying value impairment
Land	18 518 574	-	18 518 574	-
Buildings	72 822 216	(12 012 102)	60 810 114	(10 719 456)
Infrastructure	369 104 826	(98 215 469)	270 889 357	(81 718 251)
Community	90 898 001	(17 651 587)	73 246 414	(13 737 605)
Other property, plant and equipment	51 812 302	(18 461 232)	33 351 070	(15 479 314)
<b>Total</b>	<b>603 155 919</b>	<b>(146 340 390)</b>	<b>456 815 529</b>	<b>(121 654 626)</b>

### **Reconciliation of property, plant and equipment - 2017**

	Opening balance	Additions	Work In Progress	Reclassificati on	Msinga Transfer	Depreciation	Written off	Total
Land	18 518 574	-	-	-	-	-	-	18 518 574
Buildings	56 667 658	68 763	5 780 550	79 491	-	(1 786 348)	-	60 810 114
Infrastructure	268 768 581	2 135 295	12 310 476	195 977	3 743 152	(16 264 124)	-	270 889 357
Community	60 359 947	766 265	7 056 063	(187 741)	7 926 178	(2 674 298)	-	73 246 414
Other property, plant and equipment	32 409 471	6 501 904	-	(87 727)	-	(5 021 815)	(450 763)	33 351 070
	<b>436 724 231</b>	<b>9 472 227</b>	<b>25 147 089</b>	<b>-</b>	<b>11 669 330</b>	<b>(25 746 585)</b>	<b>(450 763)</b>	<b>456 815 529</b>

### **Reconciliation of property, plant and equipment - 2016**

	Opening balance	Additions	Work In Progress	Transfers	Reclassificati on	Depreciation	Written off	Total
Land	18 518 574	-	-	-	-	-	-	18 518 574
Buildings	65 881 385	189 053	-	(3 202 451)	(4 082 538)	(2 117 791)	-	56 667 658
Infrastructure	256 557 057	2 650 778	24 612 524	607 265	(233 095)	(15 425 948)	-	268 768 581
Community	55 223 148	193 227	-	2 897 360	4 082 537	(2 036 325)	-	60 359 947
Other property, plant and equipment	17 636 583	19 605 082	-	(302 174)	233 096	(4 745 148)	(17 968)	32 409 471
	<b>413 816 747</b>	<b>22 638 140</b>	<b>24 612 524</b>	<b>-</b>	<b>-</b>	<b>(24 325 212)</b>	<b>(17 968)</b>	<b>436 724 231</b>

### **Pledged as security**

No assets were pledged as security.



# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2017	2016
-----------------	------	------

### 10. PROPERTY, PLANT AND EQUIPMENT (continued)

Expenditure incurred to repair and maintain property, plant and equipment.

Expenditure incurred to repair and maintain property, plant and equipment included in the Statement of Financial Performance

Contracted services	5 023 675	1 038 555
Material consumed	1 274 984	1 394 276
General repairs	243 970	146 401
Employee related cost	2 215 275	3 081 997
	<b>8 757 904</b>	<b>5 661 229</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality. As at 30 June, 2015, land valued at R 9 247 000 was not registered in the name of the municipality. Steps are currently in place to finalise all registrations. At the reporting date, 38 properties had been registered.

### 11. INTANGIBLE ASSETS

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	2 374 840	(1 071 281)	1 303 559	1 531 148	(663 348)	867 800

#### Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software, other	867 800	843 692	(407 933)	1 303 559

#### Reconciliation of intangible assets - 2016

	Opening balance	Amortisation	Total
Computer software, other	1 276 851	(409 051)	867 800

#### Other information

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 12. HERITAGE ASSETS

	2017			2016		
	Cost / Valuation	Accumulated Impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets which fair values cannot be reliably measured: (Para .94)						
Statue	355 590	-	355 590	355 590	-	355 590

#### Reconciliation of heritage assets 2017

	Opening balance	Total
Heritage assets which fair values cannot be reliably measured: (Para .94)		

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2017	2016
<b>12. HERITAGE ASSETS (continued)</b>		
Statue	355 590	355 590
<b>13. LOANS PAYABLE</b>		
<b>At amortised cost</b>		
Bank loan	7 633 253	25 666 366
The loan was provided by DBSA and is secured against future grant receipts from the Department of Energy. This loan incurs interest at 9% per annum over a period of one and a half (1.5) years.		
<b>Non-current liabilities</b>		
At amortised cost	-	6 319 974
<b>Current liabilities</b>		
At amortised cost	7 633 253	19 346 392
<b>14. PAYABLES FROM EXCHANGE TRANSACTIONS</b>		
Payments received in advance	791 843	751 947
Trade payables	8 837 736	17 241 791
Sundry deposit.	1 225 808	1 125 517
Staff leave accrual	6 163 082	5 481 411
Retentions	12 897 458	17 424 071
Staff bonus accrual	2 548 509	2 291 839
Other creditors	3 438 967	3 801 909
Short-Term Medical Aid obligations	-	28 435
Stores suspense account	-	810
	<b>35 903 403</b>	<b>48 147 730</b>
Other creditors include a total amount of R 3 239 925 (2016 : R3 598 857) relating to Customers with credit balances. The fair value of other creditors approximates their carrying value.		
<b>15. CONSUMER DEPOSITS</b>		
Electricity	2 415 337	2 377 132
Guarantees held in lieu of electricity deposits as at 30 June 2017 amounted to R319 360, (2016 : R319 360)		
<b>16. UNSPENT CONDITIONAL GRANTS AND RECEIPTS</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Taxi rank	98 264	98 264
Sports and recreation	292 893	292 893
Small Town Revitalisation	4 164 590	5 260 984
Corridor development	2 040	2 040
Eshane development	374	374
Phasiwe farm	17 399	17 399
Gijima KZN	12 451	12 451
Storm damage	43 170	43 170
Municipal Disaster Recovery Grant	-	279 000
Specific program	77 353	77 353
Public Donations	5 500	-
MASSIF	(777 187)	-
	<b>3 936 847</b>	<b>6 083 928</b>

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand 2017 2016

### 16. UNSPENT CONDITIONAL GRANTS AND RECEIPTS (continued)

#### Movement during the year

Balance at the beginning of the year	6 083 928	13 303 784
Additions during the year	61 863 000	112 274 000
Income recognition during the year	(56 534 497)	(115 248 320)
MIG recalled	(6 311 000)	(3 956 617)
FMG recalled	-	(148 461)
Library subsidy	-	(140 458)
Disaster Management Grant	(279 000)	-
Massification	(885 584)	-
	<b>3 936 847</b>	<b>6 083 928</b>

### 17. PROVISIONS

#### Reconciliation of provisions - 2017

	Opening Balance	Actuarial gain/ loss	Current service cost	Interest cost	Vesting benefits	Total
Long service awards	2 880 577	(413 045)	418 406	239 014	(251 533)	2 873 419

#### Reconciliation of provisions - 2016

	Opening Balance	Additions	Total
Long service awards	2 063 050	817 527	2 880 577
Non-current liabilities		2 681 840	2 629 044
Current liabilities		191 579	251 533
		<b>2 873 419</b>	<b>2 880 577</b>

The municipality rewards qualifying employees for serving for a continuous period of 10, 15, 20, 25, 30, 35, 40 and 45 years. At each reporting date the municipality estimates the long service awards using qualified actuaries. As at 30 June 2017, the actuarial valuation was conducted by Arch Actuarial Consulting.

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2017	2016
-----------------	------	------

### 18. EMPLOYEE BENEFIT OBLIGATIONS

#### Defined benefit plan

##### Post retirement medical aid plan

The municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes ( Bonitas, Keyhealth, LA Health ,SAMWU Med) most of which offer a range of options pertaining to levels of cover. The post employment health care benefit actuarial valuation was conducted by Arch Actuarial Consulting. Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

##### Movement in the defined obligation plan

Opening Balance	16 594 544	14 213 579
Current service costs	726 907	388 575
Interest cost	1 535 939	1 227 578
Acturial (gain)/loss	-	2 206 828
Employer benefit payments	(1 189 457)	(838 176)
Transferred to current	(728 499)	(603 840)
	<b>16 939 434</b>	<b>16 594 544</b>

#### Long service award

##### Movement in the defined benefit obligation

Opening Balance	2 880 577	2 063 050
Current service costs	418 406	259 511
Interest cost	239 014	156 549
Acturial (gain)/loss	(413 045)	696 327
Benefits vesting	(251 533)	(294 860)
	<b>2 873 419</b>	<b>2 880 577</b>

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.65 %	8.67 %
Actual return on reimbursement rights	70.00 %	70.00 %
Medical cost trend rates	50.00 %	50.00 %

The average retirement age is 65 years

The benefit accrual age is 55 years

#### Sensitivity results

The liability at the valuation date was recalculated to show the effect of:

(i) A 1% increase and decrease in the assumed rate of health care cost inflation;

(ii) A 1% increase and decrease in the discount rate;

(iii) A one-year age reduction in the assumed rates of post-retirement mortality;

(iv) A one-year decrease in the assumed average retirement age; and A 10% decrease in the assumed proportion of in-service members that continue to receive the subsidy after retirement.

### 19. HOUSING DEVELOPMENT FUND

Unappropriated surplus	9 698 765	11 541 387
Feasibility studies	(6 821 475)	(2 626 500)
Interest	476 587	783 878
	<b>3 353 877</b>	<b>9 698 765</b>

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2017	2016
<b>19. HOUSING DEVELOPMENT FUND (continued)</b>		
Cash and cash equivalents	3 353 877	9 698 765
<b>20. SERVICE CHARGES</b>		
Sale of electricity	65 067 441	58 257 951
Refuse removal	8 224 260	7 757 127
Other service charges	262 903	290 571
	<b>73 554 604</b>	<b>66 305 649</b>
<b>21. RENTAL OF FACILITIES AND EQUIPMENT</b>		
<b>Facilities and equipment</b>		
Rental of facilities	61 348	66 210
Plantation rental	2 736 910	2 546 867
Human settlements and municipal	917 820	687 816
	<b>3 716 078</b>	<b>3 300 893</b>
<b>22. OTHER INCOME</b>		
Other income	344 896	172 636
Escort fees	154 766	175 015
	<b>499 662</b>	<b>347 651</b>
<b>23. INTEREST RECEIVED - INVESTMENTS</b>		
<b>Interest revenue</b>		
Bank	3 346 566	2 121 815
<b>24. PROPERTY RATES</b>		
<b>Rates received</b>		
Residential	15 124 424	14 110 288
Commercial	13 902 793	10 889 272
State	7 276 719	6 553 454
Small holdings and farms	4 819 506	4 567 731
Sundry Adjustments	3 885 462	3 658 247
Less: Income forgone	(9 299 574)	(8 347 565)
	<b>35 709 330</b>	<b>31 431 427</b>
Property rates - penalties imposed	3 553 854	1 721 240
	<b>39 263 184</b>	<b>33 152 667</b>

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2017	2016
-----------------	------	------

### 25. GOVERNMENT GRANTS AND SUBSIDIES

#### Operating grants

Equitable share	94 786 000	85 271 078
Museum subsidy	175 000	166 000
Municipal Systems Improvements Grant (MSIG)	-	930 000
Library subsidy	1 051 000	1 031 000
Expanded Public Works Programme (EPWP)	2 373 000	1 954 000
Grant -Skills Development	153 750	144 886
Finance Management Grant (FMG)	1 725 000	1 700 000
Eshane Development	-	24 597
	<b>100 263 750</b>	<b>91 221 561</b>

#### Capital grants

Municipal Infrastructure Grant (MIG)	20 000 000	24 570 000
Small town rehabilitation	1 096 394	2 392 686
Massification Grant	6 325 603	58 000 000
	<b>27 421 997</b>	<b>84 962 686</b>
	<b>127 685 747</b>	<b>176 184 247</b>

#### Conditional and Unconditional

Included in above are the following grants and subsidies recognised:

Conditional grants recognised	33 855 747	90 913 169
Unconditional grants received	93 830 000	85 271 078
	<b>127 685 747</b>	<b>176 184 247</b>

#### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

#### Taxi rank

Balance unspent at beginning of year	98 264	98 264
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	<b>98 264</b>	<b>98 264</b>

Conditions still to be met - remain liabilities (see note 16).

#### Sport and recreation

Balance unspent at beginning of year	292 893	292 893
Current-year receipts	-	-
	<b>292 893</b>	<b>292 893</b>

Conditions still to be met - remain liabilities (see note 16).

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2017	2016
-----------------	------	------

### 25. GOVERNMENT GRANTS AND SUBSIDIES (continued)

#### MIG

Balance unspent at beginning of year	-	3 956 617
Current-year receipts	20 000 000	24 570 000
Conditions met - transferred to revenue	(20 000 000)	(24 570 000)
	-	(3 956 617)

#### Grant - Skills Development

Current-year receipts	177 147	144 886
Conditions met - transferred to revenue	(177 147)	(144 886)

#### Museum subsidy

Current-year receipts	175 000	166 000
Conditions met - transferred to revenue	(175 000)	(166 000)

#### Small town rehabilitation grant

Balance unspent at beginning of year	5 260 984	7 653 670
Conditions met - transferred to revenue	(1 096 394)	(2 392 686)
	<b>4 164 590</b>	<b>5 260 984</b>

Conditions still to be met - remain liabilities (see note 16).

#### Corridor Development

Balance unspent at beginning of year	2 040	2 040
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	<b>2 040</b>	<b>2 040</b>

Conditions still to be met - remain liabilities (see note 16).

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2017	2016
<b>25. GOVERNMENT GRANTS AND SUBSIDIES (continued)</b>		
<b>Eshane Development</b>		
Balance unspent at beginning of year	374	24 971
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(24 597)
	<b>374</b>	<b>374</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Phasiwe farm</b>		
Balance unspent at beginning of year	17 399	17 399
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	<b>17 399</b>	<b>17 399</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>FMG</b>		
Balance unspent at beginning of year	-	148 461
Current-year receipts	1 725 000	1 700 000
Conditions met - transferred to revenue	(1 725 000)	(1 700 000)
Other	-	(148 461)
	<b>-</b>	<b>-</b>
<b>Gijima KZN</b>		
Balance unspent at beginning of year	12 451	12 451
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	<b>12 451</b>	<b>12 451</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Storm damage grant</b>		
Balance unspent at beginning of year	43 170	43 170
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	<b>43 170</b>	<b>43 170</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Library subsidy</b>		
Current-year receipts	1 051 000	1 031 000
Conditions met - transferred to revenue	(1 051 000)	(1 031 000)
	<b>-</b>	<b>-</b>
<b>Specific Programme</b>		
Balance unspent at beginning of year	77 353	77 353
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	<b>77 353</b>	<b>77 353</b>



# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2017	2016
-----------------	------	------

### 25. GOVERNMENT GRANTS AND SUBSIDIES (continued)

Conditions still to be met - remain liabilities (see note 16).

#### INEP

Balance unspent at beginning of year	-	677 037
Current-year receipts	25 000 000	25 000 000
Spent during the period	(25 000 000)	(25 677 037)
	-	-

#### MSIG

Current-year receipts	-	930 000
Conditions met - transferred to revenue	-	(930 000)
	-	-

#### Rural electrification- COGTA

Balance unspent at beginning of year	-	-
Current-year receipts	6 434 000	58 000 000
Spent during the year	(6 325 603)	(58 000 000)
Other	(885 584)	-
	(777 187)	-

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2017	2016
<b>25. GOVERNMENT GRANTS AND SUBSIDIES (continued)</b>		
<b>Expanded public works program</b>		
Balance unspent at beginning of year		
Current-year receipts	2 373 000	1 954 000
Conditions met - transferred to revenue	(2 373 000)	(1 954 000)

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2017	2016
<b>26. EMPLOYEE RELATED COSTS</b>		
Basic	64 057 156	57 851 993
Bonus	4 283 160	3 388 026
Medical aid - company contributions	2 377 874	1 780 363
UIF	639 811	563 027
WCA	473 009	-
SDL	822 153	734 552
SALGA Levies	32 943	28 179
Leave pay	853 668	208 625
Cellphone allowances	132 100	142 400
Acting allowance	1 124 393	797 470
Pension contributions	8 168 712	7 348 182
Housing allowances	725 757	374 378
Overtime payments	1 864 152	1 607 313
Stand by allowances	870 126	552 436
Travel allowances	2 385 562	2 148 500
Group insurance contribution	546 351	600 438
Post employment contributions	541 473	3 827 875
Protective clothing	1 682 484	107 643
Less: Employee costs included in other expenses	(2 575 385)	(3 444 709)
Less: Employee costs capitalised to PPE	-	(157 570)
	<b>89 005 499</b>	<b>78 459 121</b>

### Remuneration of Municipal Manager

Annual Remuneration	233 369	1 011 450
Car Allowance	30 000	180 000
Acting Allowance	275 656	-
Cell phone Allowance	3 000	18 000
Other	240 573	-
	<b>782 598</b>	<b>1 209 450</b>

### Remuneration of Chief Finance Officer (Acting)

Annual Remuneration	615 331	909 863
Car Allowance	180 000	195 758
Housing Allowance	60 000	45 000
	<b>855 331</b>	<b>1 150 621</b>

Remuneration of the Chief Finance Officer (CFO) includes remuneration for the former CFO and the current acting allowances .

### Remuneration of Manager: Corporate services (Acting)

Annual Remuneration	-	450 853
Performance Bonuses	-	1 500
Acting Allowance	242 584	243 424
Other	-	4 033
	<b>242 584</b>	<b>699 810</b>

### Remuneration of Manager: Technical services (Acting)

Annual Remuneration	-	364 945
Car Allowance	-	19 801
Performance Bonuses	-	9 600
Acting Allowance	250 984	250 984
	<b>250 984</b>	<b>645 330</b>

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2017	2016
<b>26. EMPLOYEE RELATED COSTS (continued)</b>		
<b>Remuneration of Manager: Community Services (Acting)</b>		
Annual Remuneration	-	417 375
Car Allowance	-	142 484
Performance Bonuses	-	12 800
Acting Allowance	250 984	250 984
	<b>250 984</b>	<b>823 643</b>
<b>Remuneration of Manager: Planning</b>		
Annual Remuneration	892 167	882 759
Car Allowance	120 000	120 000
Cellphone Allowance	6 000	6 000
	<b>1 018 167</b>	<b>1 008 759</b>
<b>Remuneration of Manager: Good Governance</b>		
Annual Remuneration	-	211 307
Car Allowance	-	34 559
Other	-	20 261
Other	-	2 000
	<b>-</b>	<b>268 127</b>
<b>27. REMUNERATION OF COUNCILLORS</b>		
Councillors	6 730 367	5 574 959
Cell phone allowance	663 199	513 828
Transport allowance	1 080 075	1 354 567
	<b>8 473 641</b>	<b>7 443 354</b>

### In kind benefits

The Mayor, Deputy Mayor and Speaker are provided with an office, secretarial support, vehicles and security at the cost of the Council. The mayor also enjoys the benefits of a council house.

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2017	2016
<b>27. REMUNERATION OF COUNCILLORS (continued)</b>		
<b>Councillors allowances</b>		
Mayor	769 778	782 480
Speaker	549 787	630 878
Deputy Mayor	578 896	640 814
Executive committee members	1 011 184	955 687
Ordinary councillors	5 563 996	4 433 495
	<b>8 473 641</b>	<b>7 443 354</b>
<b>28. DEPRECIATION AND AMORTISATION</b>		
Property, plant and equipment	26 154 496	24 325 212
<b>29. BULK PURCHASES</b>		
Electricity	44 550 570	41 249 614
<b>30. CONTRACTED SERVICES</b>		
Valuation expenses	-	82 829
Other contractors	15 150 661	15 426 136
	<b>15 150 661</b>	<b>15 508 965</b>
<b>31. INDIGENT SUPPORT</b>		
<b>Other subsidies</b>		
Free Basic Electricity	1 355 360	1 449 002
Indigent Refuse and Rates	287 560	337 436
	<b>1 642 920</b>	<b>1 786 438</b>

The Municipality provided indigent support to 597 indigent customers as at 30 June 2017 (567: 2016) amounting to R 1 355 360 for electricity (R 1 035 658: 2015), R 1 287 560 for rates and refuse (R 281 431.92: 2015).

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2017	2016
<b>32. GENERAL EXPENSES</b>		
Advertising	485 187	567 499
Anti rabies	406 138	276 740
Audit committee expenses	116 918	339 820
Auditors remuneration	1 568 925	1 140 118
Bank charges	629 078	806 488
Civic honour function	322 015	227 850
Commission paid	488 923	391 132
Community development	4 415 310	1 954 048
Consulting and professional fees	1 108 427	2 385 648
Consumables	2 585 713	3 632 743
Contributions leave and bonus	938 341	2 250 686
Delivery costs	106 839	3 003
Electricity and refuse - internal	2 728 550	2 199 296
Entertainment	414 001	163 397
Fines and penalties	24 189	26 552
Firebreaks	20 047	26 388
Fuel and vehicle maintenance	4 147 614	3 303 161
Grant expenditure	6 392 666	58 865 129
Hire	1 405 511	350 934
Indigent burials	904 832	704 950
Insurance	343 752	1 743 316
Internet subscription fees	74 424	51 818
Landscaping	-	143 083
Machinery costs	5 568	1 039
Magazines, books and periodicals	21 026	22 763
Meter reading	620	-
Motor vehicle expenses	88 567	-
Other expenses	703 162	928 927
Postage and stamps	206 031	186 542
Printing and stationery	563 387	489 630
Refreshments	101 506	88 223
Security	4 308 252	2 114 437
Sewerage and waste disposal	194 141	91 077
Shortages and surpluses	2 470	7 662
Software expenses	288 047	196 704
Stipend for ward committees	1 163 818	1 565 660
Study assistance	1 539 247	811 835
Subscriptions and membership fees	1 005 080	864 645
Sundry grants expenditure	1 594 518	1 710 167
Telephone and fax	1 695 327	851 371
Towing of vehicles	52 570	14 850
Training	2 089 501	746 772
Transport operating charges	-	1 240
Travel and accommodation	3 273 247	1 911 381
Uniforms	2 185 088	377 971
Work and play	302 458	1 228
Youth	3 016 785	1 121 268
	<b>54 027 816</b>	<b>95 659 191</b>

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2017	2016
<b>33. CASH GENERATED FROM OPERATIONS</b>		
Surplus	1 302 176	14 521 806
<b>Adjustments for:</b>		
Depreciation and amortisation	26 154 496	24 325 212
Loss on sale of assets and liabilities	(55 162)	-
Fair value adjustments	(7 204 000)	(3 788 000)
Impairment provision	11 896 069	4 836 632
Movements in retirement benefit assets and liabilities	469 549	2 984 805
Movements in provisions	(7 158)	817 527
Prior year adjustments	19 731 564	(3 535 461)
Interest accrual	-	1 166 366
Assets written off and other adjustments	(226 211)	-
<b>Changes in working capital:</b>		
Inventories	327 796	836 654
Other receivables from exchange transactions	(13 691 083)	(6 007 518)
Other receivables from exchange transactions	(6 001 686)	(6 524 338)
Other receivables from non-exchange transactions	2 974 989	(9 886 525)
Payables from exchange transactions	(12 244 327)	6 257 136
VAT	1 426 014	7 025 556
Unspent conditional grants and receipts	(2 147 081)	(7 079 398)
Consumer deposits	38 205	38 425
	<b>22 744 150</b>	<b>25 988 879</b>
<b>34. AUDITORS' REMUNERATION</b>		
Audit fees	1 568 925	1 140 118
<b>35. COMMITMENTS</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	25 420 531	5 109 718
<b>Total capital commitments</b>		
Already contracted for but not provided for	25 420 531	5 109 718
<b>Authorised operational expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Operational - professional fees	1 310 170	465 309
<b>Total operational commitments</b>		
Already contracted for but not provided for	1 310 170	28 402 701
Operational commitments include Sibgem Management and Consulting Engineers these commitments cannot be quantified until specific projects are determined and contract values determined.		
<b>Operating leases - as lessee (expense)</b>		
<b>Minimum lease payments due</b>		
- within one year	-	166 597
Operating lease payments represent rentals payable by the municipality for certain of its office equipment. Leases are now on month to month basis and no contingent rent is payable.		
<b>36. FRUITLESS AND WASTEFUL EXPENDITURE</b>		
Interest and penalties	303 001	77 000

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2017	2016
<b>36. FRUITLESS AND WASTEFUL EXPENDITURE (continued)</b>		
Fruitless and wasteful expenditure refers to interest charged by Eskom.		
<b>37. IRREGULAR EXPENDITURE</b>		
Opening balance	126 571 274	73 081 766
Add: Reasons for deviation deemed inadequate.	7 198 143	26 831 567
Add: Other irregular expenditure	33 120 309	26 657 941
Less: Amounts condoned	-	-
<b>Amount awaiting Council review and condonation</b>	<b>166 889 726</b>	<b>126 571 274</b>

The classification, validation and recoverability of irregular expenditure will be determined by the Council after investigation by the Council Committee in terms of Section 32 of the MFMA.

### 38. DEVIATION FROM SUPPLY CHAIN MANAGEMENT REGULATIONS

Deviations from SCM policy approved by the Accounting Officer.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the annual financial statements.

Deviations current year	689 472	2 965 676
Condoned by council	-	(2 965 676)
	<b>689 472</b>	<b>-</b>

.Additional text

### 39. ELECTRICITY DISTRIBUTION LOSSES

#### Heading

Units purchased (Kwh)	47 719 811	46 962 470
Units sold (kwh)	(40 479 709)	(38 512 705)
Units lost in distribution (kwh)	7 240 102	8 449 765
<b>Total cost of Distribution losses in Rands</b>	<b>7 307 817</b>	<b>5 096 818</b>

The municipality incurred distribution losses during the period. These losses are calculated as the difference between power supplies invoiced by Eskom and amounts billed to consumers as above.

The total distribution loss is 15.17 % (2016/17) and 17.99% (2015/2016).

### 40. CONTINGENCIES

#### Contingent liabilities

Estimated contingent liabilities are set out below

- The amount for contingent liabilities disclosed below exclude claimant legal costs which cannot be readily quantified.

Claimant Matter	Amount (R)
Swanlow/ 3 months salary settlement	- 190 920
IGODA/ Breach of Contract	1 179 926 1 179 926
Msunduzi/ Services rendered	- 67 668
	<b>1 179 926 1 438 514</b>

#### Contingent assets

The Municipality instituted legal action against Mngoe Transport (Private) Limited to recover an amount of R 2 836 377 for an item of Plant the Municipality ordered and paid for in full but was not delivered. According to Council's legal advisors, it is probable that the proceedings will result in the recovery of the full amount and this recovery is virtually certain.



# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

2017

2016

### 41. RELATED PARTIES

During the year no transactions were conducted with councillors or entities in which they held interests.

Particulars regarding remuneration to municipal management are set out in note 27.

### 42. PRIOR PERIOD ERRORS

The correction of the error(s) results in adjustments as follows:

#### Statement of Cash Flows

##### Cash flow from operating activities

As previously reported	-	36 444 085
Net movements	-	(10 455 206)
	-	<u>25 988 879</u>

##### Repairs and maintenance

As previously reported	-	5 661 229
Net adjustments	-	(299 876)
	-	<u>5 361 353</u>

##### General expenses

As previously reported	-	58 526 053
Net movements	-	37 807 857
Actuarial Gain on Long Service awards reclassified	-	(674 719)
	-	<u>95 659 191</u>

##### Accumulated surplus

As previously reported	-	577 716 043
VAT understated	-	1 978 244
Retentions understated	-	(569 627)
Impairment overstated	-	4 444 528
Grants	-	(44 392 250)
Assets brought into recorded	-	3 707 819
WIP Adjustments	-	(87 452 984)
Debtor written back	-	(1 273 238)
Unspent grant - (VAT claimed on INEP Projects in error)	-	(1 073 647)
VAT on Massification	-	(7 243 266)
VAT on INEP	-	(2 526 000)
	-	<u>443 315 622</u>

##### Value Added Tax

As reported	-	1 061 426
Declarations understated	-	904 597
VAT on Massification	-	(7 243 266)
VAT on INEP	-	(2 526 000)
	-	<u>(7 803 243)</u>

##### Payables from exchange transactions

As reported	-	48 181 943
Retentions understated	-	569 627
Employee benefit Obligations reclassified	-	(603 840)
	-	<u>48 147 730</u>

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2017	2016
<b>42. PRIOR PERIOD ERRORS (continued)</b>		
<b>Receivables from non exchange</b>		
As reported	-	16 334 558
Impairment overstated	-	4 444 528
	-	<b>20 779 086</b>
<b>Project in Progress</b>		
As reported	-	131 845 234
Reversal	-	(131 845 234)
<b>Restated balance</b>	-	-
<b>Actuarial gain/ loss</b>		
Reclassified from general expenses	-	674 719
<b>Property, plant and equipment</b>		
As reported	-	433 016 412
Assets brought into records	-	3 707 819
	-	<b>436 724 231</b>
<b>Other receivables from exchange transactions</b>		
As previously reported	-	2 046 105
Mngoe	-	(1 273 238)
	-	<b>772 867</b>
<b>Employee benefit obligations</b>		
Reclassified from payables from exchange transactions	-	603 840

## 43. RISK MANAGEMENT

### Maximum risk exposure

Credit risk consists mainly of cash deposits, cash equivalents and consumer debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Consumer receivables comprise a widespread customer base. Management evaluated credit risk relating to consumers on an ongoing basis. If consumers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the municipality.

These balances represent the maximum exposure to credit risk:

Cash and cash equivalents	11 975 583	42 672 393
Receivables from exchange transactions	24 709 919	16 913 219
	<b>36 685 502</b>	<b>59 585 612</b>

### Liquidity risk

The municipality's risks to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities into amounts due within 12 months after year end:

Loan payable	7 633 253	19 346 392
Payables from exchange transactions	35 903 403	48 147 730
Unspent grants	4 822 431	6 083 928
	<b>48 359 087</b>	<b>73 578 050</b>

### Interest rate risk

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

2017

2016

### 43. RISK MANAGEMENT (continued)

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

At 30 June 2017, financial instruments exposed to interest rate risk were call deposits and deposits.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates. With all other variables held constant, the municipality's deficit for the year is affected through the impact on variable rate investments as follows:

#### 1% increase 2017

Cash and cash equivalents	119 756	426 724
Receivables from exchange transactions	247 099	169 132
	<b>366 855</b>	<b>595 856</b>

### 44. GOING CONCERN

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

### 45. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

#### Contributions to organised local government

Current year subscription / fee	311 273	757 360
Amount paid - current year	(311 273)	(757 360)
<b>Balance outstanding</b>	-	-

#### Audit fees

Current year subscription / fee	1 568 925	1 140 118
Amount paid - current year	(1 568 925)	(1 140 118)
<b>Balance unpaid-included in accounts</b>	-	-

#### PAYE and UIF and SDL

Opening balance	-	637 718
Current year subscription / fee	11 691 101	10 863 665
Amount paid - current year	(11 691 101)	(11 501 383)
<b>Balance unpaid</b>	-	-

#### Pension and Medical Aid Deductions

Current year subscription / fee	19 132 925	12 469 873
Amount paid - current year	(19 132 925)	(12 469 873)
<b>Balance outstanding</b>	-	-

# UMVOTI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2017	2016
-----------------	------	------

### 45. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (continued)

#### Councillors' arrear consumer accounts

The following Councillors and staff had arrear accounts outstanding for more than 90 days at 30 June 2017:

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
<b>Staff</b>			
Gwala LP	14 914	10 434	25 348
Mbeje SL	652	1 739	2 391
Mhlongo BA	13 525	38 425	51 950
Sikhakhane S	653	2 714	3 367
Zakwe Boysie Monick	653	2 178	2 831
Zondi Linda Convoy	653	833	1 486
	<b>31 050</b>	<b>56 323</b>	<b>87 373</b>

30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Dlamini MR	6 505	7 102	13 607
<b>Staff</b>			
Nzama NV and Z	1 847	7 785	9 632
Xulu B L	3 047	10 029	13 076
Gwala LP	10 478	5 700	16 178
Mhlongo BA	10 001	41 747	51 748
Sikhakhane S	539	2 946	3 485
Mzila TE	530	2 604	3 134
Zondi LC	508	1 552	2 060
Mbeje SL	532	2 619	3 151
Ntulli VS	528	2 304	2 832
Mdunge MN	528	2 004	2 532
Mkhize L	528	2 454	2 982
Mazeka DE	541	1 442	1 983
Makhathini ZE	8 568	4 822	13 390
	<b>44 680</b>	<b>95 110</b>	<b>139 790</b>

### 46. BUDGET DIFFERENCES

#### Material differences between budget and actual amounts

**Service Charges** - Inaccurate budgetting.

**Other Income** - Income received was less than expected.

**Government Grants and Subsidies** - INEP and Massification revenue excluded from revenue for the Municipality

**Fines, Penalties, and Forfeits** - fines raised on an accrual basis.

**Property rates** - There was a backdating in the billing of a shopping mall.

**Depreciation and asset amortisation** - Work in progress brought into use as assets..

**Materials and Bulk purchases** - error on budgetting.

**General Expenses** -Increase in the provisions and commission.

**Debt Impairment** - increase in accounts receivable.